

TAX RATE INFORMATION

Washington State
Employment Security

For more information go to
www.wa.gov/esd/tax/taxinfo.htm

The state legislature asked Employment Security to improve the information we provide about your Unemployment Insurance taxes. The following information, definitions and numbers may be useful to you. If you have comments or questions, please call the numbers listed on your Tax Rate Notice.

GENERAL INFORMATION

Unemployment Insurance was created in the 1930s to make sure that people could buy food, pay rent and cover their essential bills when they became unemployed through no fault of their own. This program provides economic stability to the local economy during hard times and seasonal layoffs, and when changes happen in the types of industries that are thriving.

The unemployment insurance system is set up to accumulate funds during good times in order for the system to cover benefit payments during periods of high unemployment. This fundamental principle spreads the risk over the course of an economic cycle.

The system is financed primarily by employer payroll taxes. Employers pay into an insurance pool. This pool, or unemployment trust fund, can only be used to pay benefits.

An employer's tax rate is based on and varies according to changes in their "experience rate", which is the amount of benefits paid to former employees and directly charged to the employer, divided by the employer's taxable wage for the previous four fiscal years ending June 30. Tax rates are also affected by "socialized costs", those benefit costs that are spread to most employers in the system and not directly assigned to an individual employer's experience rating account. Experience rates and socialized costs vary from year to year.

The socialized costs of unemployment insurance are distributed among employers keeping the trust fund fiscally sound, while not overburdening employers.

Overall the goals of the unemployment insurance program are: to maintain, in part, a worker's purchasing power and

reduce reliance on the welfare system while seeking a new job; to motivate employers to keep a stable labor force-preventing the loss of an employer's trained workforce but also ensuring that a trained workforce can remain in the community during economic downturns and seasonal layoffs; and to provide economic stability to local businesses during changes in business cycles.



According to national studies, having an Unemployment Insurance program in place is responsible for keeping the local unemployment rate 2 1/2 to 5 percent lower than it would be without Unemployment Insurance. In a study to simulate local economic impacts if there was no national unemployment benefit program, findings showed up to a 10 percent increase in unemployment.

Unemployment benefits, like other transfer payments, go to pay bills. In a survey of households on spending patterns, unemployment benefits were used to pay mortgages and rent, groceries, certain medical care, credit and loan payments, transportation costs, and utility bills. Studies in Arizona showed that for each dollar of unemployment benefits paid in 1975, about \$2.50 in disposable personal income was spent locally over a two-year period. Most of this spending was in retail trade, services (hotel/restaurant, medical, legal, repair, education, business/computer, etc.) and construction sectors. Putting unemployment benefits in people's wallets also generated or prevented the loss of jobs- each \$1 million in benefits eventually created 168 jobs.

The study also found that in the absence of unemployment benefits, local populations are reduced.

DEFINITIONS

Definition of Terms used on Tax Rate Notice

Annual Taxable Wage Base

The maximum amount of wages subject to taxation for any worker in a given year. This wage base changes annually. It is calculated by dividing total wages for all workers by the total number of workers, and state law sets limits on how much it can increase in a year. The taxable wage base is benchmarked to increases in earnings so that the trust fund can support benefit payments for a growing work force making higher wages.

Tax Rate

Unemployment insurance tax rate. These rates range from .57% to 5.6% for 2003. Qualified employers are assigned a tax rate using their benefit ratio. All qualified employers are arranged in order by their benefit ratio and divided into twenty rate classes which each represent about five percent of qualified taxable payrolls. All other employers are assigned a tax rate based upon the predecessor's rate class, delinquency, or industry average. There is an additional tax for the Employment Administration Fund which finances work search assistance and training for the unemployed. (0.03% for rate class 1-19 and delinquent employers and 0.02% for rate class 20 and those employers assigned the industry average)

Definitions Which Pertain to Qualified Employers

Experience Year

State law uses July 1-June 30 as the "year" to calculate tax rates (instead of the calendar year) so that tax rates can be calculated before January 1, when new tax rates take effect.

Benefit Charges

The amount of unemployment benefits paid to ex-employees and charged to the employer's experience rating account for the four most recent "experience" years.

Taxable Wages

The wages subject to taxation as reported for the four "experience" years.

Taxes Paid

The total amount of taxes paid by the employer during the four "experience" years.

Benefit Ratio

A Benefit ratio is a measure of the employer's experience with unemployment over time. This ratio is used to determine the

employer's tax rate for the following calendar year since it helps assure that sufficient taxes are paid into the trust fund based on the potential use of the fund. It is calculated by dividing benefit charges by taxable payroll during the four most recent experience years.

Tax Rate Determination Methods

- Regular Taxable Employer Experience Rate Calculation: Calculated using four experience years.
- Delinquent: If an employer is late reporting or paying taxes, penalties or interest on September 30, they are assigned a 5.6% tax rate for the following year.
- No Payroll: If an employer has reported no payroll for four consecutive quarters in the two calendar years prior to the rate calculation, they are assigned their industry's average tax rate.
- New Employer: New business entities are assigned their industry's average tax rate for that year.
- Successor Employer: If a new employer buys an existing business, they are assigned the lower of the predecessor's rate class or the industry average tax rate.



Definitions Which Pertain to Socialized Costs

Benefit payments that are not assigned directly to any individual employer are called socialized costs. Socialized costs are comprised of three components: Inactive Account Charges, Ineffective Account Charges, and Non-charges. Below are descriptions of these components, followed by a table showing all socialized costs incurred during fiscal year 2002. (see back page)

Total Benefits Paid

The total of all unemployment insurance benefits paid statewide during experience year July 1, 2001-June 30, 2002.

Total Non-Charged Benefits

The total of all benefits paid in Washington during fiscal year 2002 that were not charged to an employer. About 12% of benefits paid during fiscal year 2002 were non-charged.

Inactive Account Charges

When an employer closes a business, the ex-workers begin to receive unemployment benefits. These benefits are paid out of the unemployment trust fund pool but there is no employer to charge for the benefits, so all employers share the cost of these payments.

BENEFIT CHARGING

Ineffective Charges

An employer's tax rate determines the amount of taxes paid in a particular year. In some years, the total benefits paid to ex-workers of the individual employer may exceed the amount of taxes paid by that employer. These are called ineffective charges since the benefits paid out are greater than the taxes paid in, so all employers share the cost of these benefits to the extent the benefits paid out are more than the taxes paid. (This situation is usually caused because the employer is already paying the maximum tax rate.)

Benefit Non Charging

Some benefit payments are not charged to the experience rating account of a taxable employer. Some of the non-charging occurs automatically and others must be requested by the employer within 30 days after the initial (first) notification that an ex-worker has applied for unemployment benefits. Below are descriptions of situations where benefits are non-charged.

Worker denied benefits due to voluntary quit or fired for misconduct

When a person is denied unemployment benefits by the TeleCenter, then returns to work and becomes involuntarily out of work, any benefits paid after that separation are not charged to the employer involved with the denial of benefits.

Worker has Marginal Labor Force Attachment

A person is identified as marginally attached to the labor force by comparing wages earned each calendar quarter for the last two years and the benefits paid in the current benefit year. When a person who is determined to have a marginal labor force attachment receives more benefit payments in a calendar quarter than the wages they had earned in that same quarter in either of the two last years, those benefits exceeding the wages earned in either of those quarters are not charged to any employer.

Person is Overpaid Benefits

A person receives unemployment benefits but is later found to be ineligible for those payments. Employers who had been charged for those payments have those charges removed from their experience rate account when the overpayment is discovered, then the department begins collection of the overpayment from the benefit recipient.

State Has an Extended Benefit Program

During times of high unemployment, the state and federal governments sometimes make extra weeks of benefits

available because people can't find jobs and are out of work longer. Individual employers are not charged for these extended benefits payments because it is the general state of the economy and not the individual employer who is responsible for the long-term unemployment.

Benefits Are Paid After A Disability

A person has a temporary disability lasting at least three months during which they can not work. When they get a doctor's release to return to work but don't have a job yet, they receive benefits that are based on wages earned before the disabling injury or illness. If that illness or injury was not work-connected, the employer is not charged for the benefit payments since working had no part in creating the disability.

Worker Voluntarily Quits the Job

A person quits a job but later receives unemployment benefits because they worked somewhere else and then became involuntarily out of work. The employer can request to be not charged for benefits paid in this situation because they had no responsibility for the ex-employee being unemployed.

Worker is Fired for Misconduct

A person is fired from a job for work related misconduct (not inability to perform the job) but later receives unemployment benefits because they worked somewhere else and then became involuntarily out of work. The employer can request to be not charged for benefits paid in this situation.

Business Closes Due To Disaster

When a fire, flood, natural disaster or other catastrophe requires a business to close or sharply curtail business and lay off workers, the employer can request that the benefits paid to those workers are not charged since it would be a hardship to be charged for benefits in addition to paying the costs of the disaster.

Worker Has Two Jobs

A person had two jobs during the base year - one was a permanent, part-time job where they continue to work now. The person loses their other job, which makes them eligible for unemployment benefits (reduced by earnings from the part-time job). The employer who continues to offer regular part-time work to that person can request not to be charged for any partial benefits the worker receives while they try to replace the second job.



Socialized Costs for the period July 1, 2001 thru June 30, 2002

Inactive Account Charges	\$194,273,975
Ineffective Charges	\$312,666,734
Noncharged Benefit Situations:	
Marginal Labor Force	
Attachment	\$49,513,743
Voluntary Quits	\$97,325,625
Discharge for Misconduct	\$11,630,987
All Other Noncharging	\$73,072,312
Total Noncharged Benefits ¹	\$231,542,667
Total All Socialized Costs	\$738,483,376
Total Benefits Paid	\$1,947,163,955
Total Taxes Paid	\$913,435,785
Total Taxable Wages Paid in Washington (7/1/01 thru 6/30/02)	\$43,107,491,340
Socialized Costs as a % of Taxable Wages	1.71%

¹ Does not include \$227,268,379 in federal reimbursement for Extended Benefits and TEUC Programs.

Unemployment Benefits Paid and Unemployment Rate by County (July 1, 2001 - June 30, 2002)

County	Unemployment Rate	Benefits Paid
Adams	10.3	\$3,898,634
Asotin	4.8	2,650,463
Benton	6.2	29,112,625
Chelan	9.7	19,821,930
Clallam	7.5	13,507,610
Clark	8.3	93,175,392
Columbia	11.5	773,052
Cowlitz	11.2	36,588,776
Douglas	7.6	8,746,722
Ferry	11.8	2,111,080
Franklin	8.8	11,061,941
Garfield	3.9	185,327
Grant	9.7	19,730,781
Grays Harbor	9.6	19,338,715
Island	5.6	13,697,812
Jefferson	6.4	5,768,416

Employment Security is an equal opportunity employer and provider of employment and training services. Auxiliary aids and services are available upon request to persons with disabilities.

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King	6.1	611,935,161
Kitsap	6.2	47,260,355
Kittitas	6.4	7,150,334
Klickitat	14.4	8,225,920
Lewis	8.8	17,348,447
Lincoln	5.5	10,454,502
Mason	7.6	11,719,874
Okanogan	10.1	11,482,200
Pacific	8.4	4,217,074
Pend Orielle	9.3	2,569,617
Pierce	7.1	202,240,274
San Juan	4.4	2,203,569
Skagit	7.7	32,729,843
Skamania	11.7	2,963,145
Snohomish	6.9	230,729,018
Spokane	6.9	107,847,987
Stevens	10.9	12,955,873
Thurston	5.8	45,746,377
Wahkiakum	7.8	914,323
Walla Walla	6.3	8,811,804
Whatcom	6.8	43,857,575
Whitman	2.4	2,239,427
Yakima	10.7	60,506,547
Out of State	----	180,885,433
Statewide Total	7.0	1,947,163,955

Source: Employment Security Department Labor Market and Economic Analysis Branch.

The Weekly Benefit Amount in Washington State ranges from \$106 to \$496 for the period July 1, 2001 to June 30, 2002. This ranks Washington as 4th highest in the United States. The average duration of benefits and amount of benefit payments in Washington is 18.5 weeks of benefits at \$323.00 per week.

The average tax rate for calendar year 2002 was 2.18%. Based upon the taxable wage base for 2002 of \$28,500, the average cost per employee for unemployment insurance taxes was \$621.30. The wage base ranking for Washington was the 2nd highest (behind Hawaii), while the average tax rate was 13th highest in the United States.

Information on other data available to employers may be found on the department's Web site at www.wa.gov/esd.